

Czechia

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IN A NUTSHELL

- The Czech economy stagnated in 2023, inflation reached 10.7% but inflationary pressures gradually diminished during the year.
- The Central Bank began easing monetary policy in December, cutting rates by 25 bps from 7%.
- House prices fell slightly, although trends varied across regions and property types.
- New mortgage origination dropped by 25%, but gradually recovered through the year from the decade-lows in 2022 caused mainly by high interest rates.
- The average mortgage rate reached 5.9% but stopped rising at the turn of 2022 and 2023.

MACROECONOMIC OVERVIEW

The economy just stagnated in terms of GDP development in 2023, although this was slightly better than expected at the start of the year. Inflation remained in double digits, with an average rate of 10.7%, (from 15.1% in 2022). This was driven by strong price growth in January 2023, but price rises were relatively muted afterwards.

Despite weaker economic activity, the labour market remained resilient, unemployment stayed among the lowest in the EU in 2023 (2.6%). Average wage growth was 8% y-o-y, a decline of 2.4% in real terms after an 8.5% fall the previous year. This partly explains weak household consumption, which decreased by 3% y-o-y. Since the end of 2019, household consumption has fallen by almost 9%, a record decline in the EU.

The Czech National Bank began easing monetary policy in December with a 25-bps reduction from 7% base rate, which had remained stable since mid-2022.

The economy is expected to grow modestly in 2024, by around 1%, driven by improvements in household consumption, investment activity, and foreign demand. Inflation significantly fell at the beginning of the year, reaching the 2% target in June. The annual average inflation rate is projected to be around 2.2%.

The Czech National Bank (CNB) continued its easing cycle during 2024, reducing the main rate to 4.5% in August. Further easing is expected in the second half, albeit at a slower pace. By the end of the year, the CNB's two-week repo rate could get slightly below 4%, according to projections by the Czech Banking Association.

Average mortgage interest rates fell to 5.05% by June 2024.

New mortgage origination increased by 75% y-o-y in the first quarter of 2024, partly due to a low base effect. Gradual recovery is expected this year, with new mortgage volumes projected to grow by 40-50% y-o-y. This would bring the nominal volume of new mortgages close to the levels seen in the pre-pandemic year of 2019.

HOUSING MARKETS

Property prices decreased by 1.7%. But the price trend changed in the middle of the year, after many years of growth (since the end of 2013 when the economy faced a mild recession), prices declined for three quarters, from Q4 2022 to Q2 2023, a cumulative 3.7%. From the third quarter, real estate prices began to rise very slowly again (0.2% q-o-q) and by the end of year reached the level of the beginning of 2022.

Weaker demand for housing transactions was driven by high interest rates, stricter macroprudential measures by the CNB (which were relaxed in the second half of the year) and a high price-to-income ratio for real estate. The decline was expressed by several indicators – housing starts, housing completions and building permits all declined y-o-y.

Given the fall in the number of house sales and financing, the fall in house prices was relatively unimportant. A return to price growth is expected with adverse effects on house affordability despite anticipated lower inflation and improved financing conditions.

MORTGAGE MARKETS

Banks and building societies arranged mortgages of CZK 13 0bn (EUR 5 bn), out of which new mortgages were CZK 112 bn and remortgaging CZK 18.4 bn, a drop in production of 24% y-o-y (new loans 25%, remortgaging 21%).

Although in 2022 there was already a significant drop in sales (by 63% y-o-y), a further decline then stabilization of volumes in 2023 was in line with expectations. Volumes were at a ten-year low, broadly 70% lower than 2021. But a slight recovery was evident by the end of the year – in the first quarter sales fell by 69% y-o-y, in the fourth quarter they increased by 111% y-o-y. Of course, this includes a base effect – the lowest volumes were in Q4 2022; but showed recovery during the year.

The development of the mortgage market was mainly influenced by the economic situation. Inflation was 10.7%, but prices were relatively muted after a big price shock in January driven mainly by price of energies. The CNB maintained strict monetary policy during the year with the first easing of rates only at the end of the year.

Increasing prices for consumer goods and other housing expenditures, particularly electricity and gas payments, significantly reduced household repayment capacity, but in the second half of the year this growth in expenditure slowed.

An expectation of easing monetary policy caused a partial decrease in market long-term rates, starting a revival in the housing market. Consumer confidence improved and demand for housing financing started growing. Initially remortgaging activity improved, followed by new loans.

The average interest rate on mortgages was significantly higher than last year (5.88% in 2023 vs. 4.61% in 2022), it started at 6% in Q1 and ended at 5.75% in Q4.

In the first months of 2024 interest rates have continued to decrease and new mortgage loan origination has increased.

In April 2022, the CNB tightened income indicators DTI (Debt to Income, max. 8.5) and DSTI (Debt Service to Income, max. 45%) and maximum LTV (Loan to Value, max 80%), one of the reasons for the market slowdown in 2022 and to some extent 2023.

In 2023, the CNB reconsidered its macroprudential regulations and gradually relaxed its restrictions – the DSTI limit was cancelled in Q3 and the DTI from the beginning of 2024. This was driven by an effort to revive mortgage financing. The first effect was noticeable in Q4, and the full effect will appear the numbers for H1 2024. LTV limit remained valid without any changes and no relaxation is expected in 2024.

GREEN FUNDING

Financing of energy saving investments by households is supported by the New Green Savings program. This program is focused on energy savings in family and apartment buildings. The main goal is to increase the energy efficiency of buildings and reduce emissions of greenhouse gases and other pollutants in the air. Support is aimed at building insulation, construction or purchase of houses with very low energy consumption, ecological methods of heating buildings, including replacement of inadequate heat sources or the use of renewable energy sources. The New Green Savings program is financed from a portion of the proceeds of emission allowance auctions.

Cooperation started between the state (the Ministries of Environment and Finance) and the Association of Building Saving Companies to help households decrease the energy consumption of residential building in June 2023. The two main pillars are: 1) possibility to provide subsidy consultancy via distribution channels of building saving companies to retail clients (subsidy programs dedicated to support green technologies (solar panels, heat pumps, etc.) and complex isolation) and 2) launch of co-financed loan by state dedicated to clients who aim to do complex isolation of their buildings. Both of the activities have been implemented in 2024.

| | CZECHIA 2022 | CZECHIA 2023 | EU 27 2023 |
|--|-----------------|-----------------|---------------|
| MACROECONOMIC VARIABLES | | | |
| Real GDP growth (%) (1) | 2.4 | -0.3 | 0.4 |
| Unemployment Rate (LSF), annual average (%) (1) | 2.2 | 2.6 | 6.1 |
| HICP inflation (%) (1) | 14.8 | 12.0 | 6.4 |
| HOUSING MARKET | | | |
| Owner occupation rate (%) (1) | 77.1 | 76.0 | 69.2 |
| Gross Fixed Investment in Housing (annual change) (1) | -13.0 | -6.0 | -3.1 |
| Building Permits (2015=100) (2) | 110.7 | 90.1 | 94.0 |
| House Price Index - country (2015=100) (2) | 211.0 | 208.7 | 170.2* |
| House Price Index - capital (2015=100) (2) | n/a | n/a | 165.1* |
| Nominal house price growth (%) (2) | 6.9 | -1.1 | 3* |
| MORTGAGE MARKET | | | |
| Outstanding Residential Loans (mn EUR) (2) | 65,497 | 66,410 | 6,782,375 |
| Outstanding Residential Loans per capita over Total Population (EUR) (2) | 6,228 | 6,133 | 15,114 |
| Outstanding Residential Loans to disposable income ratio (%) (1) (2) | 42.8 | 39.2 | 71.3 |
| Gross residential lending, annual growth (%) (2) | -61.0 | -22.6 | -26.6 |
| Typical mortgage rate, annual average (%) (2) | 4.6 | 5.9 | 4.7 |

* Please note that this value is a simple average of the available values in 2023.

Sources:

(1) Eurostat.

(2) European Mortgage Federation - Hypostat 2024, Statistical Tables.



CZECHIA FACT TABLE

Which entities can issue mortgage loans in your country? In the Czech Republic, housing finance is raised by banks.

What is the market share of new mortgage issuances between these entities? Banks represent 100% of the mortgage market.

Which entities hold what proportion of outstanding mortgage loans in your country? There are 3 big retail banks, which together hold 75% of the mortgage loans outstanding volume in the Czech Republic.

What is the typical LTV ratio on residential mortgage loans in your country? The Recommendations of the Czech National Bank set the maximum LTV at 80%, or 90% for customers younger than 36 years. Typical mortgage loan have an LTV close to 80%.

How is the distinction made between loans for residential and non-residential purposes in your country? More than ¾ of the housing loans were provided for residential purposes.

What is/are the most common mortgage product(s) in your country? The most common mortgage loan in 2022 was the loan for house/flat purchases secured by financed property with an interest rate fixation period of 3 to 5 years and a maturity of 25–30 years.

What is the typical/average maturity for a mortgage in your country? The Recommendation of Czech National Bank sets the maximum mortgage loan maturity at 30 years. Typical mortgage loans have a maturity that ranges from 25 to 30 years.

What is/are the most common ways to fund mortgage lending in your country? Through a combination of deposits and covered bonds.

What is the level of costs associated with house purchase in your country (taxes and other transaction costs)?

- 1) Fee for record of the ownership change and fee for mortgage lien establishment to Real Estate Cadastre (state database);
- 2) Real estate agency fee (only for purchase intermediated by RE agency).

What is the level (if any) of government subsidies for house purchases in your country? In a low interest rate environment and considering the generally positive macroeconomic development in throughout most of the year, a limited amount of subsidies was available:

- Tax-deductible paid interests: The amount paid in interest on a mortgage loan to finance housing needs can be deducted from the tax base of physical entities' income, up to CZK 300,000 per year if the housing was acquired by the end of 2020 and up to CZK 150,000 per year for housing acquired in 2021 and later.
- Support for establishing social housing for disadvantaged people due to their age or health.
- Relaxed credit ratios applied for housing loans – LTV, DTI, DSTI - for loan applicants younger 36 years.